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STATE PLEASE PASS TO USTR KDUCKWORTH/MSULLIVAN
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS WEEK OF OCTOBER 20

REFS: SANTIAGO 929 AND PREVIOUS

11. (SBU) SUMMARY: This continues a series of regular updates on major developments in Chile's economy since the acceleration of global financial turmoil. By week's end on Friday, October 24, Chile's economy had seen significant declines in copper prices, the exchange rate, and the stock market. There is a growing sense among Chilean experts that the effects of the global crisis on the real economy are becoming more apparent, although this impact is still hard to quantify. Economic growth was expected to markedly decrease in 2009 and the unemployment rate was forecast to increase. Chile's trade balance worsened over the first 9 months of 2008. Regional Central Bank presidents met over the weekend of October 18 and agreed to share information. END SUMMARY.

Dramatic Fall in Copper Prices

12. (U) Copper closed on the London Metals Exchange at approximately \$1.69/pound on October 24, a fall of almost 21% from its close the week before. This is copper's lowest price since September 2005. It has registered a drop of over 50% in the last 100 days. Many economists expect copper prices will continue to fall in 2008, but are confident prices will increase again in 2009. Minister of Finance Andres Velasco has said that although the GOC used long-term copper price projections of \$1.99/pound as the basis for its 2009 budget, the Government does not plan to alter its spending plans at this time.

13. (U) CODELCO (Chile's state-owned copper company) has reported it will put in place a contingency plan to reduce costs. The company has noted it could register a drop in revenue of about \$5 billion in 2009, if copper prices fail to rise back above \$2/pound. Revenue could be reduced even further if there is an accompanying fall in molybdenum prices (currently at \$1.10/pound).

14. (U) Private mining companies also expect reduced revenues. Most experts are concerned about the impact of low copper prices on the Small and Medium Enterprises (SMEs) in the mining sector. These companies sell to ENAMI (the National Mining Enterprise). ENAMI pays the SMEs based on an average of copper prices during the previous month plus a surcharge for treatment applied to the metal. The drop in copper prices has caused a reduction in revenue, which has forced many SMEs to announce drastic cost-cutting measures, including layoffs. Javier Cox, President of the Mining Council (an association of private mining companies) noted member companies have not announced changes in investment plans for 2009, as they are confident copper prices will increase in the mid-term.

Chilean Peso Loses Value Against U.S. Dollar

¶15. (U) The exchange rate closed down on October 24 at about 671 Chilean Pesos to 1 U.S. Dollar (a decrease of almost 9% since its close the week before). The peso has depreciated over 25% against the dollar for the year. This is the peso's lowest rate of exchange with the dollar since September 2003.

Plunge In The Stock Market

¶16. (U) The IPSA closed at 2,337.27 points on October 24, losing almost 4% on the previous Friday's close. October has been characterized by high volatility and a reduction in daily trading volume. On October 22, the IPSA lost almost 6% of its value in one day.

2009 Economic Growth Projected To Fall

¶17. (U) According to the poll Latin American Consensus Forecasts (a survey of 121 experts and economists in the region), growth in Chile for 2009 is forecast to fall to 2.8%, by far the lowest growth estimate yet for next year.

Unemployment Expected To Rise

¶18. (SBU) Press reports indicate that several leaders in Chile's export sector are feeling the impact of the global crisis, especially copper and salmon (affected by lower demand and/or lower prices). The Embassy has heard reports from some of Chile's largest salmon exporters that layoffs have increased significantly in smaller firms. One of Chile's major salmon-producing regions has requested \$500 million from the GOC to re-train workers who have lost jobs in the salmon industry. Chile's average unemployment rate in 2007 was 7.1% and is expected to be between 7.8% and 8% for 2008. Experts predict that unemployment will rise by 0.5% to 2% in 2009.

Trade Balance Deteriorates

¶19. (U) Chile's trade balance has shown a marked deterioration during the first 9 months of 2008. The trade surplus dropped to \$12.3 billion from \$19.8 billion during the same period in 2007. Exports, at \$57 billion, were up by 11.2% while imports increased by 42.3% to \$44.7 billion. During September, Chile ran its first trade deficit in six years with imports rising 48% compared to the same month in 2007, whereas exports only increased 1% during the month. The Central Bank forecast a year-end trade surplus of \$16.3 billion, down from \$23.7 billion in 2007. Chilean exports to the United States dropped 5.5% during the first nine months of 2008. However, U.S. markets remain the main destination for Chilean exports in the hemisphere.

Central Bank Presidents Meet in Santiago

¶10. (U) Over the weekend of October 18, the Central Bank heads from Argentina, Brazil, Chile, Colombia, Mexico, and Peru met in Santiago. They discussed the measures adopted by their Central Banks in reaction to the global crisis and agreed to establish mechanisms to exchange information and technical cooperation. They did not agree to any coordinated action.

SIMONS